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DEPT OF TREASURY FOR JHOEK, BONEILL

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TAGS: ECON EFIN EINV ETRD BR  
SUBJECT: SECOND INVESTMENT GRADE CREDIT RATING FOR BRAZIL

SENSITIVE BUT UNCLASSIFIED--PLEASE TREAT ACCORDINGLY

REF: A. Sao Paulo 0247 B. 07 Sao Paulo 0768

¶1. (U) On May 29, Fitch upgraded Brazil's sovereign risk rating to investment grade, from BB+ (neutral outlook) to BBB- (neutral outlook). According to Fitch, "the impressive improvement in external finances, in part due to higher commodity prices, but also the result of good policy management, along with the sovereign's net creditor status has made Brazil much more resilient to global financial shocks and enhanced the credibility of its macroeconomic policy framework." The upgrade by Fitch came much more swiftly than anticipated (only 29 days since S&P's upgrade on April 30 Ref A). The second upgrade to investment grade by the three major ratings agencies took significantly longer in other emerging markets; one year in the case of Russia and two in the case of Mexico.

¶2. (SBU) With an investment grade credit rating from both Fitch and S&P, Brazil's base of potential investors increases, since some institutional investors may face restrictions in investing in countries that have only received investment grade status with one rating agency. Increased investment, especially from institutional investors such as pension funds and the insurance industry will enable a reduction in the GOB's financing costs, accelerate the improvement of the public debt profile, and allow Brazilian bonds to be included in indices that serve as a benchmark for large global investment funds.

¶3. (SBU) The third major credit rating agency, Moody's, has been less positive about the prospects for an early upgrade for Brazil mainly due to fiscal policies, specifically high levels of government spending as a percent of GDP (Ref B). The expectation from our interactions with Moody's Director for Brazil was that the rating agency would change its outlook from neutral to positive by year-end, and grant Brazil investment grade in 2009. However, Central Bank interlocutors have indicated that Moody's may in fact be moving more quickly than anticipated in following the other credit ratings agencies and may upgrade Brazil this year. Regardless, Brazil has surpassed the main barrier of earning an investment grade sovereign credit rating from two of the three main rating agencies. Brazil is now more open to many institutional investors and should experience significant increases in international investment.

**¶4. (U) This cable has been coordinated with the US Treasury  
Financial Attache in Sao Paulo.**

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